REPORT ON THE NEED FOR SUPPLEMENTAL IMPORTS OF PEANUTS UNDER SECTION 22 DURING THE QUOTA YEAR BEGINNING JULY 1, 1954

The Department of Agriculture has reviewed the current supply-demand situation for peanuts to determine whether there is a need for imports in addition to the existing import quota and, if so, whether and on what basis an additional quantity might be permitted to be entered during the current quota year beginning July 1, 1954 without materially interfering with or rendering ineffective the Department's program for peanuts and without reducing substantially the amount of domestic peanuts processed in the United States.

Subsequent to an investigation and report by the Tariff Commission, the President, on June 8, 1953, issued a proclamation limiting imports of peanuts, whether shelled, not shelled, blanched, salted, prepared, or preserved (including roasted peanuts, but not including peanut butter) during any 12-month period beginning July 1, to 1,709,000 pounds of shelled peanuts, aggregate quantity: provided that peanuts in the shell shall be charged against this quota on the basis of 75 pounds for each 100 pounds of peanuts in the shell.

There is now reason to believe that domestic supplies of peanuts in the 1954-55 marketing season are not sufficient to provide for domestic requirements; that quantities of edible peanuts in excess of the shortage are available abroad; that these foreign peanuts are available at prices substantially below current domestic prices; and that excess imports at prices that are low relative to present domestic prices would be practically certain to materially interfere with or render or tend to render ineffective the peanut price support program and marketing quota and acreage allotment program for peanuts and to substantially reduce the amount of products processed in the United States from domestic peanuts.

1. Domestic Supply and Requirements

In the 1954-55 marketing season beginning August 1, 1954, the supply of peanuts may be insufficient to meet anticipated requirements. As a result of decreased domestic production due to drought conditions, supplies of peanuts in 1954-55 are estimated at 627,869 tons as compared with expected requirements of about 659,537 tons, both on farmers stock basis. Farmers stock peanuts refer to peanuts as they come from the field with the kernels still in the shells. When peanuts are milled by shellers, they are processed into shelled peanuts (kernels) or cleaned unshelled peanuts. For this discussion, the weights of shelled peanuts and cleaned unshelled peanuts

in this statement have been converted to comparable weights of farmers stock peanuts, unless otherwise stated.

A. Supply

The total supply of peanuts during the current marketing season is estimated at 627,869 tons, consisting of an adjusted carry-in of 130,291 tons, an adjusted 1954 crop of about 496,578 tons and imports of about 1,000 tons. (See Table 1.)

Total stocks of all edible peanuts on August 1, 1954 amounted to 130,291 tons. (See Table 1 for method of adjusting edible carry-over.) This was 104 percent of the average for 1949 through 1953 of commercially-held peanuts (which excludes stocks held by Commodity Credit Corporation). This carry-over to the 1954 marketing year consisted of 70 percent shelled edible peanuts, 6 percent cleaned unshelled peanuts, and 24 percent farmers stock peanuts. (Table 2.)

The average sound mature kernel content for 1954 was 64.18 percent of the net weight of the farmers stock peanuts compared with an average of 67.44 percent for 1949 through 1953. Thus, the sound mature kernel content for 1954 is only 95.17 percent of the average for 1949-53. Since all other estimates and calculations of supply and requirements are made on the basis of the average sound mature kernel content, the reported 1954 production of 521,780 tons has been adjusted downward to 496,578 tons or 95.17 percent of the reported figure in order to make it comparable. (See Tables 3, 4 and 4A.)

The effect of the drought on the peanut crop in 1954 was extremely severe and highly unusual. The record of peanut production in the United States shows no other similar instance. Substantial acreage was not harvested; yield on the acreage harvested was greatly reduced compared with normal yield in recent years; the quality of peanuts harvested in terms of sound mature kernel content was substantially reduced.

Imports of peanuts are shown at 1,000 tons, farmers stock basis. The present peanut import quota of 1,709,000 pounds, shelled basis was completely filled on November 19, 1954.

B. Requirements

It is estimated that a total supply of about 659,537 tons of peanuts will be required to meet the demand during the 1954-55 marketing season. (Tables 5 and 6.) Existing legislation requires the establishment of the national marketing quota and the support of prices on that quantity of peanuts deemed to be needed to fill all requirements which will make available sufficient peanuts to equal demand for edible uses in the United States. These requirements are referred to as "quota uses" and total 564,137 tons which together with a minimum safe

carry-over on August 1, 1955, of 95,400 tons make a total requirement of 659,537 tons. The substantial quantities of peanuts diverted by crushing and export at high cost to the Department to remove surpluses in recent years have not been included in determining requirements. The various uses which make up the requirements are discussed in the following paragraphs.

Requirements for "Domestic Commercial Edible Use" are set at 477,137 tons. As a result of higher prices in 1954-55 than prevailed in 1953-54, this use has been estimated at a lower level than the 509,000 tons that would have been expected under normal conditions in 1954-55. (Table 6.)

The "Used for Seed" requirements of 56,000 tons are the same quantity that was used from the 1953 crop.

The "Fed and Lost" requirements of 2,000 tons are the same as used for this purpose in 1952 and 1953, when production was higher than in 1954.

The "Exports for Edible Use" requirements of 1,000 tons are the same as in 1953.

The "Highly Damaged (crushed)" requirements of 1,000 tons compare with the figure of 15,000 tons normally shown for this purpose. This refers to farmers stock peanuts that will be crushed and does not refer to the inedible kernels that are separated from the edible kernels in the milling process and then crushed. Available information indicates that not more than 1,000 tons of farmers stock peanuts will be crushed from the 1954 crop. This is consistent with the fact that it is profitable to shell damaged peanuts for edible use this year when normally it is not.

The "Miscellaneous Including Home Use, Sold Locally for Edible Purposes, and Shrinkage" requirements of 27,000 tons are equal to the lowest quantity used for this purpose during the past five years. This allowance is considered reasonable in view of the current small production and favorable prices. The Department estimates that a carry-over on August 1, 1955 of 95,400 tons of peanuts will be needed for use until the 1955 crop becomes available. (Tables 1 and 2.) This is between a two-and three-month supply for domestic commercial edible use. Spanish peanuts begin to be available in volume in the Southeast and Southwest areas in September, Runner peanuts in the Southeast area in October and Virginia peanuts in the Virginia-Carolina area in November. The 95,400 tons are also the allowance for carry-over on August 1, 1955 determined under the provisions of Section 301 (b) (10) (A) of the Agricultural Adjustment Act of 1938, as amended,

which defines carry-over for purposes of that Act. The Department believes that this carry-over is sufficient and that the industry will buy and carry over a larger quantity only if unrestricted imports are available at prices below domestic prices.

2. Foreign Availability of Edible Peanuts

Foreign supplies of edible peanuts are in excess of the quantity needed to meet the current deficit in the United States. Annual world production of peanuts is approximately 12 million tons, farmers stock basis (Table 7). World exports for all uses, including edible, are over one million tons annually. (Table 8.) Statistics of edible peanut exports are not available, but are believed to be about 75,000 tons annually. This quantity, however, is far below world consumption of edible peanuts in importing countries because peanuts for edible uses are sorted from imports for crushing. (Table 9.)

The United States is the only country where peanuts are grown primarily for edible uses. In other important producing and exporting countries peanuts are primarily grown for crushing. For this reason, it is believed that a large portion, if not most, of the peanuts entering edible uses in foreign countries are bought at the price levels for oil peanuts. The potential supply of peanuts suitable for import for edible uses in the United States is therefore believed to be both very large and available at prices well below those in the United States.

Aside from China and Manchuria, (imports into the United States from those areas are not permitted), the most important foreign sources of peanut exports are French and British Africa. India is the largest producer of peanuts in the world, although in recent years exports have been substantially reduced from earlier years because of the policies of retaining peanuts for domestic consumption and for exporting oil. The present Indian domestic supply situation is much improved due to greatly enlarged production in the past two years. Countries exporting edible peanuts as such are India, Mexico, Turkey, South Africa, Spain, Israel, Madagascar, Philippines, and Libya. Smaller exports of edible peanuts have been made from several other countries.

Countries having peanuts suitable for use in the edible market in the United States have a strong ecpnomic reason to sell as many of the peanuts as they can into the U. S. market . The price of peanuts generally throughout the world is established by their value for oil and meal in

relation to the prices for oil and meal obtained from other raw materials; whereas, in the United States peanuts are grown and used mainly for edible purposes and prices are maintained at much higher levels. The current price level for peanuts in the United States is about 25 cents per pound. Thus, sale of foreign peanuts at this level after payment of duty of 7 cents would leave a return of approximately 18 cents. It is apparent, therefore, that foreign peanuts could be sold in the United States market at prices far below the domestic level. Further, the sale of peanuts at about 7 cents by a foreign country would provide sufficient funds to purchase enough cottonseed oil and meal in the United States at prevailing prices to equal the oil and meal from the peanuts.

Peanuts are harvested in Mexico for export beginning in October. South African exports are made throughout the year, the new crop being available beginning in March and April. Peanuts are available in India at all seasons, but any imports for edible use into the United States this year should be made before April 1, 1955, to avoid danger of excessive insect infestation. African peanuts are available in the early part of the year. Philippine peanuts are available in the fall and spring.

Detailed comparison between types and grades indicated by foreign market quotations and United States grades and types would require more information than is now at hand. A few generalized comparisons of domestic edible peanuts and those noted in recent foreign market quotations are listed below:

Foreign Country 1/	Foreign Grade or Type	Similar U.S. Grade or Type
India	Bold Bombay	Runners
	Java Kernels	Spanish No. 1 and No. 2
	Coromandel	Runners
	Red Natal	Runners
Mexico	Mexican peanuts	Virginias
	" "	Spanish No. 1 and No. 2
Turkey	Ananur	4/
South Africa	Virginia Bunch	Valencias
	Natal Common	Runners
Thailand	Selected Hand-Picked 2/ 3/	Oil Peanuts
Brazil	3/	Oil Peanuts

Foreign Country 1/	Foreign Grade or Type	Similar U.S. Grade or Type
Spain		Spanish No. 1 and 2
Madagascar	Valencia Common	Valencias
	Valencia Superior	Valencias
	Standard	
Philippines	Philippine Peanuts	Spanish in appearance but larger (+ 45 to ounce)
Libya 4/		
Israel 4/		

1/ For which edible peanuts have been quoted on foreign exchanges in recent weeks, or information supplied by trade sources.

2/ The best grade of Thailand peanuts

3/ Edible by foreign standards

4/ Not known

3. Prices

Domestic prices are substantially above prices prevailing in 1953-54. World prices are below domestic prices, even when the present duty is included.

A. Domestic Prices

Domestic prices for peanuts in 1954-55 have been above prices in previous years and have moved upward during the current season.

Prices received by growers for farmers stock peanuts in 1954-55 have averaged 12.3 cents a pound, which is slightly above the support level of 90 percent of parity as of August 1, 1954. Prices received by growers for farmers stock peanuts in 1954-55 have averaged 12.3 cents a pound compared with the support level (12.24 cents) of 90 percent of parity as of August 1, 1954. The mid-monthly average price received by farmers for peanuts has trended upward from 11.4 cents a pound in September to 12.5 cents in December. Somewhat higher prices for farmers stock peanuts and the poor quality of the 1954 crop both result in higher cost for shelled peanuts For example, the farm price for a ton of Southwest Spanish peanuts, base grade, was 221.00 dollars in mid-November 1953 and 302.00 dollars in mid-November 1954. This resulted in an average per pound cost of sound mature kernels of 15.79 cents in 1953 and 21.57 cents in 1954. These figures do not include cost to the sheller other than the farm price. Thus the cost of a pound of sound mature kernels of Southwest Spanish peanuts in mid-November 1954 was approximately 37 percent higher than the cost of a pound at that time in 1953. Furthermore, the smaller volume marketed in many areas during 1954 can be handled only at a higher unit cost because of the relatively high and unavoidably fixed cost involved in handling, shelling and marketing peanuts. (Table 10.)

Prices of milled peanuts have increased in 1954-55 from 1953-54 and have also moved upward during the current season (Tables 11 and 12). No. 1 shelled Virginias averaged 20.07 cents in 1953-54 compared with 25 to 25.75 cents on December 29, 1954. No. 1 shelled Southeast Spanish averaged 18.69 cents in 1953-54 compared with 24.5 to 25 cents on December 29, 1954. No. 1 shelled Southwest Spanish averaged 19.59 cents in 1953-54 compared with 24.5 to 25 cents on December 29, 1954. No. 1 shelled Runners averaged 18.10 cents in 1953-54 compared with 24.5 to 24.75 cents on December 29, 1954.

B. Foreign Prices

Foreign market quotations for edible peanuts during the past few months have ranged from 11.5 upward to almost 17 cents, c.i.f., or c & f, for grades generally larger than those most likely to be imported under an increased quota. (Table 13.) It is believed that prices for smaller-sized edible peanuts will probably stabilize near 13 cents per pound, c.i.f., U. S. ports. Larger sizes for which there is little import need will no doubt be available at slightly higher prices.

These prices relate to current conditions and are based on current information. A decline in the world price level for edible oils could result in a decrease in the price for peanuts. Therefore, the existing prices on foreign peanuts cannot be considered as probable prices over any extended period of time. The possibility of substantial increases in the imports of peanuts from the Philippines, duty free, over an extended period of time also would mean prices substantially below current prices. For the import quota year ending June 30, 1955, the Department estimates that the total quantity of peanuts available for export from the Philippines is not over 5,000 tons.

C. U. S. - Foreign Price Relationships

On the basis of the domestic and foreign prices discussed above, it is evident that peanuts could be imported into the United States, if the import quota were increased. Imported peanuts at 13 cents c.i.f., U. S. ports, plus the present 7-cent duty (Table 14.) equals 20 cents a pound landed cost. This compares with the present average domestic price of about 25 cents.

4. Government Programs

The Department is administering two programs for peanuts in 1954-55, the marketing quota and acreage allotment program and the price support program. These programs are both mandatory and will continue on a mandatory basis under present legislation.

A. Marketing Quota and Acreage Allotments

Pursuant to Section 358 of the Agricultural Adjustment Act of 1938, as amended, the Secretary is required to determine and proclaim in advance the total quantity of peanuts which will make available for marketing a supply from the crop with respect to which the quota is proclaimed equal to the average quantity of peanuts harvested for nuts during the preceding five years, adjusted for current trends and prospective conditions. The legislation makes no provision for inclusion of foreign peanut supplies in these calculations. This national marketing quota is converted to a national acreage allotment by dividing the national marketing quota by the normal yield per acre of peanuts for the United States. The normal yield is determined on the basis of the average yield per acre for the preceding five calendar years, again adjusted for trends in yields and for abnormal production conditions. The legislation requires that the national marketing quota must be large enough to result in a national acreage allotment of not less than 1,610,000 acres.

Peanut farmers are given an opportunity to vote in a referendum and indicate whether they desire that there be marketing quotas. If they approve by a two-thirds favorable vote,

marketing quotas and acreage allotments are in effect for the next three years. The national acreage allotment is apportioned among the states and allotted to individual farmers. Peanuts marketed in excess of the marketing quota for the farm, defined as the production from the allotted acres, are subject to penalties.

The objective of these programs is to prevent burdensome surpluses and critical shortages in supplies of peanuts, and to provide for a continuous and stable flow of commodities in commerce, thereby stabilizing prices in the interests of both producers and consumers. This is achieved by endeavoring to bring the supply of peanuts more nearly in line with demand.

On December 15, 1953, 94.3 percent of the peanut growers voting in the referendum approved the use of marketing quotas for the peanut crops produced during 1954, 1955 and 1956. The marketing quota and acreage allotment for 1954 was established at the minimum permitted by legislation - 673,785 tons and 1,610,000 acres respectively. The 1955 marketing quota and acreage allotment of 740,660 tons and 1,610,000 acres respectively are also at the minimum. They represent a substantial reduction from the 1949 level of 850,000 tons and 2,629,000 acres, respectively. (Table 3).

It is estimated that under normal producing conditions the present minimum acreage allotment will result in a surplus of peanuts. For example, the national marketing quota and acreage allotment for peanuts for 1955, announced on September 30, 1954, provides for the minimum acreage allotment of 1,610,000 acres permitted by law, the same as for 1954. As a result, however, of the anticipated normal yield in 1955 of 920 pounds per acre, the national marketing quota for 1955 was established at 740,600 tons. Had it not been for the provision for the minimum national acreage allotment, the national marketing quota would have been established at 648,000 tons and the national acreage allotment at 1,408,696 acres. Allowing for underplanting and under-harvesting of allotted acres, it is estimated that 695,714 tons of peanuts will be produced during 1955 assuming normal yields. This is 47,714 tons above the quantity that would be estimated for national marketing quota requirements in the absence of the minimum national acreage requirement.

B. <u>Price Support</u>

The 1954 crop of peanuts is being supported at $244.80 per ton for peanuts of normal quality (12.24 cents per pound). This represents 90 percent of the August 1, 1954 parity of $272.00 (13.6 cents per pound.)

It is mandatory under the law to support peanuts as a basic agricultural commodity. Section 101 of the Agricultural Act of 1949, as amended, provides that price support is to be made

available through loans, purchases or other operations to cooperators for any crop of any basic agricultural commodity, if producers have not disapproved marketing quotas for such crop. Under this section, the support level is to be not in excess of 90 percent nor less than 75 percent of parity depending on the relationship between the estimated supply for the marketing year and the normal supply; however, for 1954, support was required at 90 percent of parity. Furthermore, although the Agricultural Act of 1954, provides that the level of support in 1955 shall be not below 82 1/2 percent of parity the support is expected to be at 90 percent.

The primary objective of the peanut price support program is to enable U. S. producers to market their products in an orderly manner through regular trade channels at prices not less than the support rates. Prices to producers for peanuts are supported by means of non-recourse loans. Loans are made available to the four peanut producer-cooperative associations which operate in the three main peanut-producing areas. These associations are organizations of peanut growers and are the main instrumentalities through which price support is extended to growers of peanuts. Under this method the grower delivers his peanuts to the cooperative association, receives the established loan advance for the type and grade of peanuts he delivers, and participates in any gains that the cooperative may make through the marketing of the peanuts. The cooperative operates under a contract with CCC and pledges the peanuts to CCC as security for the loans to it. Instead of operating through the cooperative, an individual producer of peanuts may obtain, if he so desires, a loan on his peanuts through the local office of the Commodity Stabilization Service. The non-recourse feature permits the producer-cooperative or the individual producer to deliver the peanuts to the Commodity Credit Corporation in settlement of the loan in event they are unable to sell the peanuts on the market at a satisfactory price. The "1954 CCC Peanut Bulletin", which appeared in the Federal Register on September 28, 1954 and subsequent amendments thereto, set forth in detail the operations of the 1954 peanut price support program.

The cooperative associations and individual farmers may borrow on peanuts through January 31, 1955. As of December 25, 1954, CCC had loans outstanding on 6,299 tons of peanuts. Almost all of these loans were to the association in the Southeast area.

A. Costs Under Price Support

The Government has incurred costs totaling $155 million on its peanut programs beginning in 1935. Losses amounted to approximately $14 million in 1951, $5 million in 1952 and $14 million in 1953. (Table 15)

4. Conclusions

The investigation discloses that domestic supplies of peanuts in the 1954-55 marketing season appear to be somewhat less than

domestic requirements; that quantities of edible peanuts in excess of any shortage in the U. S. are available abroad; that these foreign peanuts are available at prices substantially below current domestic prices; and that excessive imports at prices that are low relative to present domestic prices would be practically certain to materially interfere with or to render or tend to render ineffective the peanut price support program and marketing quota and acreage allotment program for peanuts and to substantially reduce the amount of products processed in the U. S. from domestic peanuts.

A. Domestic supplies of peanuts available in the 1954-55 Marketing season appear to be insufficient to meet anticipated requirements

The analysis of domestic supplies and requirements in Section 1 indicates that an additional 31,668 tons, farmers stock basis, (21,218 tons, shelled basis) may be needed.

B. More than sufficient quantities of peanuts appear to be available abroad to provide for the estimated domestic shortage

World exports of peanuts for all uses will total over one million tons in 1954-55. While statistics on edible peanuts are not available, more than ample supplies for the U. S. can be obtained from world supplies of peanuts. Exporting countries have strong economic incentives to try to sell substantial quantities of peanuts in the U. S. market. Funds from sale of peanuts to the U. S. will purchase a quantity of other oils and meals in the world market roughly twice that represented by the peanuts sold.

C. Foreign peanuts are available at landed costs substantially below present domestic prices.

It is estimated that a substantial part of any imported peanuts will be available at near 13 cents a pound, shelled basis, c.i.f. U. S. ports. This would result in a price to domestic users of near 20 cents a pound (13 cents plus the present 7-cent duty). These prices compare with the present domestic prices of about 25 cents a pound.

D. Excessive imports during the current marketing year would be practically certain to materially interfere with or render or tend to render ineffective the peanut price support program and the marketing quota and acreage allotment program.

Any imports above the requirements for the current year, including carry-over will result in replacing domestic peanuts in the domestic edible market and will increase the quantities of 1955-crop peanuts delivered to CCC and diverted to crushing or export. For each additional ton of peanuts brought into this country that increases the carry-over above the quantity needed, the Government will be required to divert

to crushing or export an additional ton of peanuts from the 1955 crop at a cost to the Commodity Credit Corporation of approximately $100 a ton. By increasing supplies above the quantity needed, excessive unrestricted imports would completely nullify the effort to adjust supplies in line with demand under the marketing quota program. By excessive unrestricted imports at prices out-of-line with domestic market prices, the orderly marketing of the domestic crop would be disturbed and difficulty and confusion would be created throughout the industry.

E. Excessive imports during the current marketing year would be practically certain to substantially reduce the amount of products processed in the U. S. from domestic peanuts.

As pointed out in "D", substantial imports above needs during the current year would be practically certain to result in use of the imported peanuts in the domestic market while domestic peanuts remained in inventory in the hands of shellers. This would result in delivery of larger quantities of 1955 crop peanuts to Commodity Credit Corporation with additional substantial cost for diversion.

5. Recommendations

The Department is not fully satisfied with its estimates on requirements and world prices, but believes that lower estimates can be justified about as well as higher estimates or vice versa.

The Department recommends as most likely to accomplish desirable results an import fee varied in relation to the landed value of imported peanuts coupled with the suspension of the peanut import quota for the current import quota year ending June 30, 1955. The following rates are suggested subject to the proviso that ad valorem fee cannot exceed 50 percent of the value of the peanuts at country of origin:

Landed value of Peanuts	Fee as Percent of Landed Valu
Up to 13 cents	50
Above 13 and up to 14 cents	40
Above 14 and up to 15 cents	30
Above 15 cents	20

This might be stated and applied more uniformly as that import fee which when added to the regular duty of 7 cents and the landed value of the peanuts would bring the price of imported peanuts approximately in line with domestic prices at 26 cents.

The recommendation of the Department is directed specifically toward providing for imports of any peanuts which may be needed to offset a prospective temporary deficit in domestic supply, arising out of the near crop disaster last year in two of our

major peanut producing areas. The Department believes its recommendation would protect users and consumers by permitting any imports needed to maintain adequate supplies and at the same time prevent substantial displacement of domestic peanuts in processing or interference with operation of Department programs for peanuts.

The recommendation also is intended to permit the transaction of business through private channels with minimum need for Government participation or regulation. The analysis and recommendation have been made in relation to existing and prospective conditions during the period of time in which the problem will exist.

The Department recognizes one peculiar issue in the present situation but does not presently wish to make a specific recommendation thereon. Although the estimated 1954 crop of Virginia-type peanuts is about 4 percent below the 1953 crop, the proportion of large size kernels in the crop is unusually high. Consequently, the supply of the large size kernels of Virginia-type peanuts is high relative to demand. Therefore, the U. S. market has no need for import of large size peanuts. The deficit is entirely in smaller size peanuts - mainly in the Spanish type. It would be feasible administratively to specify that imports of any peanuts above the existing import quota would be limited to the smaller sizes. This could be stated in terms of the number of kernels in an ounce or gram and could be checked from small samples. This might avoid unnecessary importation of some of the larger size peanuts and should not be harmful to any segment of the industry.

The Department's statement and recommendations today are based on the best information available to us. The Department will consider carefully the additional information presented at this hearing and, if it considers that the additional information warrants it, will submit a supplemental statement and recommendation to this Commission.